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SIPDIS

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SUBJECT: TURKEY: LOW INTERNET PENETRATION DUE TO  
MARKET BARRIERS

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Sensitive But Unclassified. Please handle accordingly.

[1](#)1. (SBU) Summary: Internet penetration in Turkey remains low, due mainly to high cost of hardware and relatively high subscription fees. Although the state telecom firm, Turk Telekom (TT), has launched higher-speed and more affordable broad-band internet service, Internet Service Providers (ISPs) in Turkey complain about unfair competition from the former monopoly, which is currently slotted for privatization. The still relatively new Telecommunications Authority (TA) is still establishing its competence and independence and has not been able to carry out decisions in favor of ISP's. End Summary.

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Low Penetration, High Costs  
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[1](#)2. (SBU) Turkey's information technology sector has been enjoying steady growth, albeit from a relatively undeveloped base. The GOT has made steps to facilitate competition and investment in the sector. There are 95 licensed Internet Service Providers (ISPs), but all must interconnect and compete with Turk Telekom (TT), which is the sole provider of internet connections to the telecom infrastructure, as well as broad-band (ADSL via telephone or cable). Internet cafes have become more common throughout Turkey, but computer penetration in homes remains around 5 %, about one-tenth the average for Europe.

[1](#)3. (SBU) Estimates of internet users range from 6 million to double that amount (about 8-15 % population penetration, about one-half the average for Europe). On the high end, a State Institute of Statistics survey from June 2004 estimated that there are 13.3 million internet users in Turkey, out of a population of 70 million. According to Transport Ministry Communications Department Director General Ali Zor, home subscribers account for a small part of this number (3-4 million), since a large segment of the population cannot afford to buy PCs and uses internet cafes for internet access (constituting relatively unsophisticated use, limited to e-mails). In a meeting with Econoff and Econ Specialist, State Planning Organization Information Society Department Head Recep Cakal confirmed the low internet penetration in Turkey and attributed this not only to the high cost of PCs but also to the relatively high internet service fees, relative to Turkey's \$4,300 per capita income. Basic broad-band service (256 kbs/sec) from Turk Telekom, for example, costs approximately \$30 per month. Cakal said that technical infrastructure in Turkey was not reliable and that establishment of a truly competitive market was key to better service quality and lower internet service fees.

[1](#)4. (SBU) Cakal said the GOT was trying to increase internet penetration through a number of "e-transformation" projects, primarily targeting education. One of these projects is a joint project conducted by the Education Ministry and Turk Telekom (TT), through which TT has provided computer and broad-band connection to 12,000 schools as of the end of November 2004. The project target is to increase this to 42,500 schools by the end of 2005. In separate projects conducted with World Bank and EBRD assistance, computer labs were established in 2,800 schools in 2004, aiming to reach 4,000 more schools in 2005. These projects ultimately target providing a total of 8,300 schools with IT facilities by the end of 2005.

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ISP Blues  
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15. (SBU) While Internet Service Providers (ISP) have proliferated in Turkey, they complain that TT practices active and unfair resistance to competition and innovative services. In a February 23 meeting with Econoff and Econ Specialist, Tayfun Okter, the General Manager of Turkey's leading private ISP, Superonline, described difficulties his and similar companies face in Turkey. Superonline, the first private sector ISP established in 1994, has been a market leader since then. Responding to sectoral and economic crises over the years, Superonline changed its specialization from personal accounts to corporate wide area network solutions. Superonline currently has 1,000 corporate subscribers, in addition to 300,000 personal subscribers. Okter told us ISPs have not faced legislative barriers to free market functioning since their inception in the 1990s. However, Okter said there was always an "unseen barrier" -- the sole backbone infrastructure provider. Okter asserted that TT abused its control of the backbone infrastructure to compete unfairly against ISP companies, at times even arbitrarily cutting some ISPs' connections.

16. (SBU) ISP's assert that TT has limited their access to both basic internet and to broad-band service. Okter observed that in order to increase its market value on its way to privatization, TT had recently become an even more aggressive competitor. According to Okter, TT had at times offered lower leased line internet service fees to end users than to ISPs. Okter said TT currently had 300,000 ADSL subscribers, most of which suffer from poor customer support from TT. Okter claimed Superonline had 2,000 ADSL customers in line, who would be willing to pay an additional 20 percent to receive a better quality service from Superonline. According to Okter, TT had been reluctant to provide new ADSL portals to ISPs -- and for the limited number of portals it provides -- TT requires the ISPs to register the customers in TT's database.

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Skirmishes Over VOIP  
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17. (SBU) Voice over Internet Protocol (VOIP) service is another source of conflict between TT and the ISPs. A licensing regulation issued by the Telecommunications Authority (TA) in August 2004 appears to enable long distance telephone service license holders to provide voice transmission through all kinds of infrastructure, including the Internet. However, TT asserts that ISP companies providing VoIP services need to sign a special interconnection agreement with TT, and pay high origination and termination fees. The companies have argued against this on both a technical and competition basis. Superonline is one of the companies TT recently sued in the courts for allegedly illegally providing VOIP service.

18. (SBU) Okter said they have appealed several times to the TA about problems they have with TT, but felt it is hard for the TA to remain unbiased and independent, given fears it could be blamed for reducing the market value of TT, a critical state-owned entity, currently in the privatization process. Despite this, TA has announced some decisions against TT, which TT in turn has appealed in the courts. Subsequent court rulings went mostly against private companies, according to Okter, both due to the Turkish judiciary's "statist" stance and to the lack of specialized courts. Okter said the relevant Ministry of Transport was aware of the ISPs' problems, and was trying to resolve the dispute they had with TT. Okter complained that the ISPs were fighting in many fronts, given an ineffective TA, a biased judiciary, and unfair competition from TT. Okter feared that the companies might continue to suffer from these uncertainties even after TT's pending privatization.

19. (SBU) Dogan Online, another major independent ISP, echoed to EconOff many of the concerns raised by Superonline. While recognizing some uncertainty in the timing of the TT privatization, he expressed patience and confidence in the GOT and the regulatory authority's capacity to slowly but steadily foster greater liberalization and competition in the Turkish communication realm. He expected further fall-out in dial-up ISPs as Turk Telekom expands its ADSL service.

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Comment  
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10. (SBU) Liberalization of the telecom and information technology market in the presence of a dominant state firm is a big challenge for the GOT, with success ultimately dependent on the effectiveness of a strong, unbiased regulator. The Telecommunications Authority

aims to rise to the challenge, but still lacks the independence and competence to effectively play this role. As a result, Turkish citizens' and companies' access to low-cost and reliable high quality internet service is still hampered by the position of TT as sole provider of access to the underlying infrastructure. The GOT will have to plan beyond TT's privatization and assure that this shortcoming does not continue to impact the investment and business environment negatively.

Edelman